ANNUAL REPORT ON THE CONDITION OF THE MASSACHUSETTS UNEMPLOYMENT INSURANCE TRUST FUND BY THE DIVISION OF EMPLOYMENT SECURITY

OCTOBER 1983

I. Introduction

The Revenue Enhancement and Protection legislation enacted during 1983 requires the Director of the Division of Employment Security to file a quarterly report with the Ways and Means Committees and the Joint Committee on Commerce & Labor of the Massachusetts Legislature.

The legislation mandates that the Division of Employment Security Director recommend an adequate reserve balance for the Unemployment Insurance Trust Fund. This report will cover the system which provides revenue for the trust fund and provide projections and recommendations for 1984.

II. The Unemployment Insurance Tax System

Overview

The unemployment insurance system is a federal-state cooperative program providing benefits for individuals temporarily out of work through no fault of their own. Federal and state taxation of wages paid by employers covered by the unemployment insurance program finances current benefit payments and generates reserves to ensure the payment of future benefits. The taxes collected by the Division of Employment Security are placed in the Massachusetts Unemployment Insurance Trust Fund.

The Commonwealth's unemployment insurance system establishes different methods of payment for "private-for-profit" employers and for non-profit and governmental employers.

"Private-for-profit" employers are required to participate in a contributory tax system. The amount of taxes paid by each employer depends on the number of layoffs experienced by the individual employer and on the condition of the State's Unemployment Insurance Trust Fund. The employer's tax rate is determined by the following two-step process:

A. An experience rating account is maintained for each employer. The account is a record of the taxes paid to the Division of Employment Security and the amount of unemployment benefits paid to that employer's workers. On September 30th---the last day of the federal fiscal year---the "account" is closed, a reserve percentage is determined, and an employer's tax rate for the next calendar year is established according to which tax schedule is in effect.

There are seven tax schedules set up under the provisions of the law. Which schedule is in effect for a year is determined by the reserve percentage---the ratio between the balance of the trust fund as of September 30 and the total payroll of all contributory employers during the preceding calendar year.

Non-profit employers are given the option of either participating in the experience rating system or reimbursing (on a dollar-for-dollar basis) all benefits paid to their former employees. Under the reimburseable method employers are billed monthly.

In 1978, the system was expanded to provide unemployment insurance coverage to former employees of state and local governments. Governmental employers were given two financing options: reimbursing the State for the actual cost of benefits paid or paying contributions through an experience rated system. In Massachusetts, a special contributory system was designed for governmental employers at their request.

The Need for Reserves

The financing of unemployment insurance benefits and the stability and solvency of unemployment insurance trust funds are at the heart of state and national debates on the future direction of the unemployment insurance system. At the national level the cause for concern is that the trust funds in 25 states are insolvent.

Although Massachusetts is in a more fortunate position today, our trust fund reserves were inadequate during the 1975 recession to make current benefit payments to unemployed workers. At that time the State borrowed from the federal unemployment loan account and the Legislature also tightened benefit eligibility and increased taxes on employers.

As a result of these legislative changes and the recent strength of the Massachusetts economy, we have generated a $497 million trust fund as of September 30, 1983.

Maintaining a trust fund reserve is important because unemployment compensation is an insurance system. Thus, while seasonal fluctuation and minor cyclical changes in employment/unemployment can be financed from current income, unemployment insurance experts consider it vital to the stability of the unemployment insurance system that reserves be adequate to pay benefits during a downturn in the economy.

It is also important to maintain adequate reserves in order to foster economic strength since the need to increase taxes or to borrow from the federal fund during an economic downturn is not desireable. Tax increases place an additional economic burden on employers when they can least afford it and run counter to the government's desire to stimulate the economy. On the other hand, building an adequate reserve fund during times of economic growth is consistent with employers' desire for eveness and predictability in their tax liability.

Today there is a new reason to maintain adequate reserves. When Massachusetts borrowed in 1975 and 1976 the federal loans were interest free for two years. Now, however, 10 percent interest is assessed on similar long-term borrowing. This interest may not be paid from the trust fund and must be repaid using revenue from the general fund or from a surtax on the Commonwealth's employers. Today the State's bond prospectuses also report the condition of the trust fund.

III. Condition of the Trust Fund

Current Condition

The September 1983 trust fund balance was $497.5 million compared to a balance of $449.5 million in September 1982, an increase of $48.0 million or 10.7 percent. This balance includes payments made by all employers. Massachusetts has two contributory tax systems—one for governmental employers, the other for private-for-profit employers. The revenues from both systems are placed in a single Unemployment Insurance Trust Fund, but people usually mean the private contributory system when they refer to the trust fund.

The private contributory system account balance of $480.9 million in September 1983 was $40.0 million or 9.1 percent above the September 1982 balance of $440.9 million.

The governmental contribution account was $16.6 million in September 1983—$8.0 million or 93 percent over the prior year's balance of $8.6 million.

1984 Projection

The Division of Employment Security projects there will be $595 million in the private contributory trust fund as of December 31, 1984. This forecast is summarized on Table I, which also provides data from prior years for comparative purposes.

The projection for 1984 is based on the following economic assumptions:

- Average weekly benefit amount for 1984 of $123, an increase over the 1983 amount of $118.
- An insured unemployment rate of 3.0 percent for 1984, down from 3.3 percent in 1983.
- Tax schedule D will be in effect for 1984.

IV. Recommendation

The Division of Employment Security recommends that the adequacy of the Unemployment Insurance Trust Fund reserves should be determined by the ratio of benefit costs to total wages paid by employers over the most recent ten year period. Using this formula, an adequate trust fund reserve for the year ending December 31, 1984 would be $585 million. Hence, there is no need for legislation as the projected trust fund balance, under tax schedule D, at the end of 1984 is $595 million.

Table II outlines the method the Division of Employment Security has used to calculate the recommended trust fund reserves for 1984. The preceding section of this report sets forth the projected trust fund balance at the end of 1984 and the economic assumptions underlying the forecast.

The recommended level of adequate reserves is based on the Division of Employment Security's view that the state should build trust fund reserves to cover benefit payments during recessionary periods. We do feel, however, that borrowing from the federal loan account is appropriate during periods of castastrophic unemployment, such as 1975 in Massachusetts. Consequently,

we have rejected measures for trust fund adequacy proposed by many, including the 1980 National Commission on Unemployment Compensation, which would require reserves sufficient to cover the highest benefit cost year. Use of the highest benefit cost year would require trust fund reserves of $1.2 billion in Massachusetts by the end of 1984.

Second, the Division of Employment Security feels that a specified dollar amount is an inappropriate standard to measure reserve adequacy. Inflation or growth in payrolls can quickly render such a standard obsolete. More important, under Massachusetts law the maximum amount of unemployment compensation benefits is annually adjusted to 57.5 percent of the state's average weekly wage, so that benefit levels reflect increases in wage levels. The automatic increase in benefit payment levels requires a corresponding increase in trust fund reserves. Researchers in the field agree with our conclusion that measures of trust fund adequacy should be a function of both benefits and wages.

The Division of Employment Security recommends use of a ten year base period, so that the measure of trust fund adequacy reflects more than the most recent fluctuation in the business cycle. The resulting incremental changes in trust fund reserves promotes stability in employer taxes.

V. Comparative State Data

Table III provides data on the trust funds for all 50 states as of June 30, 1983.* Massachusetts has the fourth highest trust fund balance in terms of absolute dollars; however, its rank falls to eleventh when the reserves are related to the total wages paid by all Massachusetts employers. The latter ranking more clearly expresses the condition of the Massachusetts trust fund for the reasons previously stated. This ranking also adjusts for the variance in the number of workers covered by the unemployment insurance systems in all 50 states.

Massachusetts comparative position must also be assessed in light of the fact that 25 states have insolvent funds (as of September 30, 1983), owing the federal government $13.2 billion.

*Data used in the comparison are reserves and wages for all employers in Massachusetts---governmental, private-for-profit and non-profit.

Table I: Massachusetts Private Contributory Trust Fund

CALENDAR YEAR	TAX SCHEDULE	INSURED UNEMPLOYMENT	NET TAXES*	NET BENEFITS*	INTEREST	FUND BALANCE 12/31
1982	F	3.9%	$454	$479	$44	$401
1983	E	3.3%	483	450	44	478
1984 (projection)	D	3.0%	512	436	42	595

ALL DATA IN $ MILLION

NET TAXES - CONTRIBUTIONS RECEIVED

NET BENEFITS - BENEFIT PAYMENTS DISBURSED

INTEREST - INTEREST RECEIVED ON RESERVE BALANCE

NOTE: THE DIFFERENCE BETWEEN EACH TAX SCHEDULE IS $45 MILLION

DIVISION OF EMPLOYMENT SECURITY
OCTOBER 1983

TABLE II: CALUCULATION OF A RECOMMENDED ADEQUATE TRUST FUND RESERVE FOR 1984

RECOMMENDATION: Adequacy of Trust Fund Reserves should be determined by the ratio of benefit costs to total wages paid by employers over the most recent ten year period.

For the year ending December 31, 1984 an adequate reserve would be $595 Million.

This is based on the following calculations:

Step 1: Ten year benefit cost divided by total wages for same ten year period

$$\frac{\$\ 3.669 \text{ Million (1974-1983 benefit cost)}}{\$241.067 \text{ Million (Total wages 1974, 1983)}} = 1.52\%$$

Benefit cost ratio: 1.52%

Step 2: Benefit cost ratio times estimated wages

1.52% x $38.5 Billion (estimated wages 1984) = $585 Million

$585 Million = Estimated required balance (reserves) for December, 1984

Review of Trust Fund Status:

Actual December 31, 1982:	$401.0 Million
Actual September 30, 1983:	$480.9 Million
Projected December 31, 1983:	$478.0 Million
Projected December 31, 1984:	$595.0 Million

DIVISION OF EMPLOYMENT SECURITY
OCTOBER 1983

STATE	TRUST FUND BALANCE JUNE 30, 1983 AMOUNT	RANK	AS % OF WAGES AMOUNT	RANK
Alaska	$ 120,375,245	11	2.37	1
Mississippi	214,801,182	7	2.20	2
Hawaii	109,444,502	12	1.98	3
Florida	840,151,554	3	1.57	4
Nevada	93,740,088	14	1.48	5
New Mexico	81,614,999	15	1.27	6
New Hampshire	66,483,744	16	1.22	7
California	2,204,580,769	1	1.21	8
Georgia	357,329,979	5	1.16	9
Arizona	175,182,586	8	1.08	10
Massachusetts	437,983,290	4	1.07	11
Kansas	134,197,000	9	1.02	12
North Carolina	293,922,293	6	0.95	13
Nebraska	55,535,070	18	0.70	14
New York	875,524,808	2	0.68	15
Oregon	94,582,927	13	0.65	16
Maryland	121,803,719	10	0.51	17
South Dakota	7,718,869	25	0.30	18
Wyoming	8,468,608	24	0.23	19
Washington	56,188,509	17	0.22	20
Oklahoma	36,737,936	21	0.19	21
Tennessee	37,833,167	20	0.16	22
Indiana	47,255,905	19	0.15	23
Maine	5,487,302	27	0.11	24
South Carolina	12,838,896	23	0.09	25
Virginia	18,437,309	22	0.06	26
Alabama	6,278,654	26	0.04	27
Idaho	1,724,555	28	0.04	27
District of Columbia	-2,326,558 1/	29	-0.03	29
Montana	-4,027,938 1/	30	-0.11	30
Utah	-11,353,730 1/	32	-0.15	31
Missouri	-64,647,365 1/	35	-0.23	32
North Dakota	-7,598,093 1/	31	-0.24	33
Colorado	-74,914,457 1/	37	-0.37	34
Delaware	-16,660,815 1/	33	-0.38	35
Texas	-459,052,582 1/	46	-0.44	36
New Jersey	-325,470,484 1/	43	-0.53	37
Arkansas	-84,073,841 1/	38	-0.91	38
Connecticut	-229,018,831 1/	41	-0.93	39
Kentucky	-164,832,585 1/	39	-1.01	40
Vermont	-29,921,145 1/	34	-1.11	41
Iowa	-165,379,000 1/	40	-1.14	42
Rhode Island	-68,671,174 1/	36	-1.28	43
Louisiana	-336,376,393 1/	44	-1.29	44
Minnesota	-369,660,268 1/	45	-1.40	45
Wisconsin	-632,400,000 1/	47	-2.38	46
West Virginia	-240,362,081 1/	42	-2.56	47
Ohio	-1,946,814,342 1/	48	-2.95	48
Illinois	-2,391,984,959 1/	50	-3.10	49
Pennsylvania	-2,596,108,704 1/	51	-3.71	50
Michigan	-2,363,557,664 1/	49	-4.18	51

1/ Deficit fund balance, after deducting outstanding loan amount.
SOURCE: Georgia Department of Labor
September 1983

REPORT ON THE CONDITION OF THE MASSACHUSETTS UNEMPLOYMENT INSURANCE TRUST FUND

DIVISION OF EMPLOYMENT SECURITY
APRIL 1984

Introduction

Chapter 233 of the Acts of 1983 requires the Division of Employment Security to report on the condition of the Massachusetts Unemployment Insurance Trust Fund in October of each year and to prepare quarterly supplements to its annual report. The Division submitted its initial Annual Report in October 1983 and is now submitting its second quarterly supplement to that report.

The Trust Fund balance has declined slightly since our January 1984 report due to the seasonal nature of unemployment in Massachusetts. This, however, has not altered our projection for the balance at the end of 1984. The projection of continued growth in the Trust Fund reflects the increasing strength of the Massachusetts economy, as evidenced by a projected decrease in unemployment compensation benefits paid by the Division of Employment Security.

Condition of the Trust Fund

Current Condition:

The February 29,1984 trust fund balance was $515.6 million. This balance includes payments made by all employers. Massachusetts has two contributory tax systems-- one for governmental employers, the other for private-for-profit employers. The revenues from both systems are placed in a single Unemployment Insurance Trust Fund, but people usually mean the private contributory system when they refer to the trust fund.

The private contributory system account balance was $494.9 million as of February 29, 1984, $152 million higher than the February 1983 balance.

The governmental contributory system account balance was $20.7 million in February 1984.

1984 Projection:

The Division of Employment Security projects there will be a $679 million balance in the private contributory fund account as of December 31, 1984. The attached table details this forecast and provides data from prior years.

The projected 1984 private contributory fund balance is based on the following economic assumptions which remain unchanged from our January 1984 report.

- Average insured unemployment rate of 2.5% for 1984;
- Average weekly benefit amount in 1984 of $122; and
- Tax schedule D in effect for 1984.

Table 1: Massachusetts Private Contributory Trust Fund Account

CALENDAR YEAR	TAX SCHEDULE	INSURED UNEMPLOYMENT	NET TAXES*	NET BENEFITS*	INTEREST	FUND BALANCE
1982	F	3.9%	$454	$479	$44	$401
1983	E	3.2%	$478	$426	$44	$501
1984 (estimated)	D	2.5%	$493	$362	$47	$679

All dollars in million

*Net Taxes reflect contributions received

*Net Benefits represent benefit payments disbursed

Interest is interest received from Federal Trust Fund on reserve balance

Massachusett Division of Unemployment Security
Job Market Research - April 1984

REPORT ON THE CONDITION OF THE MASSACHUSETTS UNEMPLOYMENT INSURANCE TRUST FUND

DIVISION OF EMPLOYMENT SECURITY
NOVEMBER 1985

Introduction

Chapter 233 of the Acts of 1983 requires the Director of the Division of Employment Security to annually recommend to the General Court the amount of reserves necessary to maintain an "adequate and proper" unemployment compensation trust fund in Massachusetts. This report outlines the current condition of the trust fund. The recent changes enacted as part of Chapter 4 of the Acts of 1985 and recommends that no legislative action is necessary to ensure adequate trust fund reserves in 1986.

Condition of the Trust Fund

Current Condition:

The September 30, 1985 trust fund balance was $904.6 million. This balance includes payments made by all employers. Massachusetts has two contributory tax systems--one for governmental employers, the other for private-for-profit employers. The revenues from both systems are placed in a single Unemployment Insurance Trust Fund, but people usually mean the private contributory system when they refer to the trust fund.

The private contributory system account balance was $877.1 million as of September 30, 1985, $165.5 million higher than the September 1984 balance.

The governmental contributory system account balance was $27.5 million in September 1985, an increase of $4.9 million over September 1984.

1985 Projections through December 1985:

The Division of Employment Security projects a $856 million balance in the private contributory fund account as of December 31, 1985. This projection is based on the economic assumptions detailed in Table 1. The data for the Massachusetts private contributory fund account balance for 1982, 1983, 1984,1985, 1985 and 1986 are displayed in Table 2.

1985 Projections:

The DES projects there will be a fund balance of $791 million for the private sector system by the end of December 1986. The projection is based on the economic assumptions outlined in Table 1.

Adequate Reserves

Chapter 4 of the Acts of 1985 refinanced the Massachusetts private sector trust fund by expanding the tax schedules, increasing experience rating, and redesigning the mechanism necessary to trigger the tax schedule to be in effect.

The ratio of trust fund reserves to total taxable wages were established by the agency based on historical trends and the following criteria.

- Trust fund reserves at the lowest tax schedule should cover benefits payments during recessionary periods of high unemployment without having to borrow monies from the federal loan account.

- Periods of catastrophic unemployment like 1975, would require temporary borrowing from the federal loan account but not require the state unemployment taxes increase at the same time.

- The unemployment tax system should be more responsive to year to year changes in the state economic condition.

The tax schedule to be in effect for calendar year 1986 will be determined by the ratio of the trust fund balance on September 30, 1985 to the total taxable wages for the prior calendar year.

Based on these criteria Schedule A will be in effect for 1986. The trigger mechanism is estimated as follows:

September 30, 1985 trust fund balance	$877.1 million
Estimated October receipts	73.0 million
Adjusted balance for computation	$950.1 million

Adjusted balance divided by calendar year 1984 total taxable wages equals trust fund reserve ratio:
$950.1 million / $40.249 billion = 2.36%

Trust fund reserve percentage of 2.3% and over triggers Schedule A.

Recommendation:

Trust fund reserves are adequate for the payment of unemployment insurance benefits for 1986 and no legislative action is necessary.

Table 1

The projected 1985 and 1986 private contributory fund balance is based on the following enconomic assumptions:

	1986	1985	1984
Total Wages	$48.4 Billion	$44.4 Billion	$40.2 Billion
Taxable Wages	17.2 Billion	16.4 Billion	15.5 Billion
Tax Schedule	A	B	D
Taxable Wage Base	$7,000	$7,000	$7,000
Insured Unemployment Rate	2.8%	2.3%	2.2%
Average Weekly Benefit Amount	$ 148	$ 136	$ 126

Table 2: Massachusetts Private Contributory Trust Fund Account

CALENDAR YEAR	TAX SCHEDULE	INSURED UNEMPLOYMENT	NET TAXES*	NET BENEFITS*	INTEREST	FUND BALANCE
1982	F	3.9%	$454	$479	$44	$401
1983	E	3.2%	$478	$426	$44	$501
1984	D	2.2%	$515	$337	$58	$737
1985 (estimated)	B	2.3%	$458	$420	$81	$856
1986 (estimated)	A	2.8%	$418	$556	$73	$791

All dollars in million

*Net Taxes reflect contributions (current and delinquent)

*Net Benefit represent benefit payments disbursed

Interest is interest received from Federal Trust Fund on reserve balance

Massachusetts Division of Employment Security
Research and Policy - November 1985

REPORT ON THE CONDITION OF THE MASSACHUSETTS UNEMPLOYMENT INSURANCE TRUST FUND

DIVISION OF EMPLOYMENT SECURITY
DECEMBER 1985

Introduction

Chapter 233 of the Acts of 1983 requires the Director of the Division of Employment Security to annually recommend to the General Court the amount of reserves necessary to maintain an "adequate and proper" unemployment compensation trust fund in Massachusetts. This report outlines the current condition of the trust fund, the recent changes enacted as part of Chapter 4 of the Acts of 1985 and recommends that no legislative action is necessary to ensure adequate trust fund reserves in 1986.

Condition of the Trust Fund

Current Condition:

The September 30, 1985 trust fund balance was $904.6 million. This balance includes payments made by all employers. Massachusetts has two contributory tax systems--one for governmental employers, the other for private-for-profit employers. The revenues from both systems are placed in a single Unemployment Insurance Trust Fund, but people usually mean the private contributory system when they refer to the trust fund.

The private contributory system account balance was $877.1 million as of September 30, 1985, $165.5 million higher than the September 1984 balance.

The governmental contributory system account balance was $27.5 million in September 1985, an increase of $4.9 million over September 1984.

1985 Projections through December 1985:

The Division of Employment Security projects a $856 million balance in the private contributory fund account as of December 31, 1985. This projection is based on the economic assumptions detailed in Table 1. The data for the Massachusetts private contributory fund account balance for 1982, 1983, 1984,1985, 1985 and 1986 are displayed in Table 2.

1986 Projections:

The DES projects there will be a fund balance of $834 million for the private sector system by the end of December 1986. The projection is based on the economic assumptions outlined in Table 1.

Adequate Reserves

Chapter 4 of the Acts of 1985 refinanced the Massachusetts private sector trust fund by expanding the tax schedules, increasing experience rating, and redesigning the mechanism necessary to trigger the tax schedule to be in effect.

The ratio of trust fund reserves to total taxable wages were established by the agency based on historical trends and the following criteria.

- Trust fund reserves at the lowest tax schedule should cover benefits payments during recessionary periods of high unemployment without having to borrow monies from the federal loan account.

- Periods of catastrophic unemployment like 1975, would require temporary borrowing from the federal loan account but not require the state unemployment taxes increase at the same time.

- The unemployment tax system should be more responsive to year to year changes in the state economic condition.

The tax schedule to be in effect for calendar year 1986 will be determined by the ratio of the trust fund balance on September 30, 1985 to the total taxable wages for the prior calendar year.

Based on these criteria Schedule A will be in effect for 1986. The trigger mechanism is estimated as follows:

September 30, 1985 trust fund balance	$877.1 million
Estimated October receipts	83.0 million
Adjusted balance for computation	960.1 million

Adjusted balance divided by calendar year 1984 total wages equals trust fund reserve ratio:
$960.1 million / $40.249 billion = 2.38%

Trust fund reserve percentage of 2.3% and over triggers Schedule A.

Recommendation:

Trust fund reserves are adequate for the payment of unemployment insurance benefits for 1986 and no legislative action is necessary.

Table 1:

The projected 1985 and 1986 private contributory fund balance is based on the following enconomic assumptions:

	1986	1985	1984
Total Wages	$48.4 Billion	$44.4 Billion	$40.2 Billion
Taxable Wages	17.2 Billion	16.4 Billion	15.5 Billion
Taxable Wage Base	$7,000	$7,000	$7,000
Insured Unemployment Rate	2.6%	2.3%	2.2%
Average Weekly Benefit Amount	$ 148	$ 136	$ 126

Massachusetts Division of Employment Security
Economic Research and Analysis - December 1985

Table 2: Massachusetts Private Contributory Trust Fund Account

CALENDAR YEAR	TAX SCHEDULE	INSURED UNEMPLOYMENT	NET TAXES*	NET BENEFITS*	INTEREST	FUND BALANCE
1982	F	3.9%	$454	$479	$44	$401
1983	E	3.2%	$478	$426	$44	$501
1984	D	2.2%	$515	$337	$58	$737
1985 (estimated)	B	2.3%	$458	$420	$81	$856
1986 (estimated)	A	2.6%	$418	$516	$76	$834

All dollars in million

*Net Taxes reflect contributions (current and delinquent)

*Net Benefit represent benefit payments disbursed

Interest is interest received from Federal Trust Fund on reserve balance

Massachusetts Division of Employment Security
Economic Research and Analysis - December 1985

REPORT ON THE CONDITION OF THE MASSACHUSETTS UNEMPLOYMENT INSURANCE TRUST FUND

DIVISION OF EMPLOYMENT SECURITY
DECEMBER 1986

Introduction

Chapter 233 of the Acts of 1983 requires the Director of the Division of Employment Security to annually recommend to the General Court the amount of reserves necessary to maintain an "adequate and proper" unemployment compensation trust fund in Massachusetts. This report outlines the current condition of the trust fund recommends that no legislative action is necessary to ensure adequate trust fund reserves in 1987.

Condition of the Trust Fund

Current Condition:

The Octobert 31, 1986 trust fund balance was $982.9 million. This balance includes payments made by all employers. Massachusetts has two contributory tax systems--one for governmental employers, the other for private-for-profit employers. The revenues from both systems are placed in a single Unemployment Insurance Trust Fund, but people usually mean the private contributory system when they refer to the trust fund.

The private contributory system account balance was $950.9 million as of October 31, 1986, $47.8 million higher than the October 1985 balance.

The governmental contributory system account balance was $32.0 million in October 1986, an increase of $4.0 million over October 1985.

1986 Projections through December 1986:

The Division of Employment Security projects a $907 million balance in the private contributory fund account as of December 31, 1986. This projection is based on the economic assumptions detailed in Table 1. The data for the Massachusetts private contributory fund account balance for 1982 through 1987 are displayed in Table 2.

1987 Projections:

The DES projects there will be a fund balance of $917 million for the private sector system by the end of December 1987. The projection is based on the economic assumptions outlined in Table 1.

Adequate Reserves

Chapter 4 of the Acts of 1985 refinanced the Massachusetts private sector trust fund by expanding the tax schedules, increasing experience rating, and redesigning the mechanism necessary to trigger the tax schedule to be in effect.

The ratio of trust fund reserves to total taxable wages were established by the agency based on historical trends and the following criteria.

- Trust fund reserves at the lowest tax schedule should cover benefits payments during recessionary periods of high unemployment without having to borrow monies from the federal loan account.

- Periods of catastrophic unemployment like 1975, would require temporary borrowing from the federal loan account but not require the state unemployment taxes increase at the same time.

- The unemployment tax system should be more responsive to year to year changes in the state economic condition.

The tax schedule to be in effect for calendar year 1987 will be determined by the ratio of the trust fund balance on September 30, 1986 to the total taxable wages for the prior calendar year.

Based on these criteria Schedule B will be in effect for 1987. The trigger mechanism is as follows:

September 30, 1986 trust fund balance	$ 929.1	million
Estimated October receipts	77.7	million
Adjusted balance for computation	$1006.8	million

Adjusted balance divided by calendar year 1985 total taxable wages equals trust fund reserve ratio:
$1006.8 million/$44.074 billion = 2.28%

Trust fund reserve percentage of 2.0% or more but less than 2.3% triggers Schedule B.

Recommendation:

Trust fund reserves are adequate for the payment of unemployment insurance benefits for 1987 and no legislative action is necessary.

TABLE 1

Actual 1985 data and projected 1986 and 1987 private contibutory fund balance is based on the following economic assumptions:

	1987	1986	1985
Total Wages ($ Billion)	$51.7	$47.8	$44.1
Taxable Wages ($ Billion)	17.5	16.8	16.2
Taxable Wage Base	$7,000	$7,000	$7,000
Insured Unemployment Rate	2.2%	2.2%	2.3%
Average Weekly Benefit Amount	$ 174*	$ 154	$ 139

*Includes increased dependency allowance.

Economic Research & Analysis
12/17/86

TABLE 2

Massachusetts Private Contibutory Trust Fund Account

CALENDAR YEAR	TAX SCHEDULE	INSURED UNEMPLOYMENT	NET TAXES*	NET BENEFITS*	INTEREST	FUND BALANCE
1982	F	3.9%	$454	$479	$44	$401
1983	E	3.2%	$478	$426	$44	$501
1984	D	2.2%	$515	$337	$58	$737
1985	B	2.3%	$451	$399	$83	$872
1986 (est)	A	2.2%	$400	$455	$90	$907
1987 (est)	B	2.2%	$445	$500	$65	$917

All dollars in million

*Net Taxes reflect contribuuions (current and delinquent)

*Net Benefits represent benefit payments disbursed

Interest is interest received from Federal Trust Fund on reserve balance

Economic Research & Analysis
12/17/86

REPORT ON THE CONDITION OF THE MASSACHUSETTS UNEMPLOYMENT INSURANCE TRUST FUND

DIVISION OF EMPLOYMENT SECURITY
DECEMBER 1987

Introduction

Chapter 233 of the Acts of 1983 requires the Director of the Division of Employment Security to annually recommend to the General Court the amount of reserves necessary to maintain an "adequate and proper" unemployment compensation trust fund in Massachusetts. This report outlines the current condition of the trust fund and recommends that no legislative action is necessary to ensure adequate trust fund reserves in 1988.

Condition of the Trust Fund

Current Condition:

The October 31, 1987 trust fund balance was $1074.7 million. This balance includes payments made by all employers. Massachusetts has two contributory tax systems--one for governmental employers, the other for private-for-profit employers. The revenues from both systems are placed in a single Unemployment Insurance Trust Fund, but people usually mean the private contributory system when they refer to the trust fund.

The private contributory system account balance was $1038.8 million as of October 31, 1987, $110.4 million higher than the October 1986 balance.

The governmental contributory system account balance was $35.9 million in October 1987, an increase of $4.6 million over October 1986.

1987 Projections through December 1987:

The Division of Employment Security projects a $1020 million balance in the private contributory fund account as of December 31, 1987. This projection is based on the economic assumptions detailed in Table 1. The data for the Massachusetts private contributory fund account balance for 1982 through 1988 are displayed in Table 2.

1988 Projections:

The DES projects there will be a fund balance of $1066 million for the private sector system by the end of December 1988. The projection is based on the economic assumptions outlined in Table 1.

Adequate Reserves

Chapter 4 of the Acts of 1985 refinanced the Massachusetts private sector trust fund by expanding the tax schedules, increasing experience rating, and redesigning the mechanism necessary to trigger the tax schedule to be in effect.

The ratio of trust fund reserves to total taxable wages was established by the agency based on historical trends and the following criteria:

- Trust fund reserves at the lowest tax schedule should cover benefits payments during recessionary periods of high unemployment without having to borrow monies from the federal loan account.

- Periods of catastrophic unemployment, like 1975, would require temporary borrowing from the federal loan account but not require that state unemployment taxes increase at the same time.

- The unemployment tax system should be more responsive to year-to-year changes in the state economic condition.

The tax schedule to be in effect for calendar year 1988 will be determined by the ratio of the trust fund balance on September 30, 1987 to the total wages for the prior calendar year.

Based on these criteria, Schedule A will be in effect for 1988. The trigger mechanism is estimated as follows:

September 30, 1987 trust fund balance	$1036.6 million
Actual October receipts	76.9 million
Adjusted balance for computation	1113.2 million

Adjusted balance divided by calendar year 1986 total wages equals trust fund reserve ratio:
$1113.2 million/$48.172 billion = 2.31%

Trust fund reserve percentage of 2.3% and over triggers Schedule A.

Recommendation:

Trust fund reserves are adequate for the payment of unemployment insurance benefits for 1988 and no legislative action is necessary.

TABLE 2:
Massachusetts Private Contributory Trust Fund Account

CALENDAR YEAR	TAX SCHEDULE	INSURED UNEMPLOYMENT	NET TAXES*	NET BENEFITS*	INTEREST	FUND BALANCE
1982	F	3.9%	$454	$479	$44	$ 401
1983	E	3.2%	$478	$422	$44	$ 501
1984	D	2.2%	$515	$337	$58	$ 737
1985	B	2.3%	$451	$396	$83	$ 875
1986	A	2.2%	$403	$435	$90	$ 933
1987 (ESTIMATE)	A	1.9%	$414	$416	$89	$1,020
1988 (ESTIMATE)	A	1.9%	$418	$450	$78	$1,066

All dollars in millions

Interest is interest received from Federal Trust Fund on Reserve Balance

*Net Taxes reflect contributions (current and delinquent)

*Net Benefit represent the amount of benefit payments disbursed

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Table 1:

The projected 1987 and 1988 private contributory fund balance is based on the following enconomic assumptions:

	1988	1987	1986
Total Wages	$57.2 Billion	$52.7 Billion	$48.2 Billion
Taxable Wage Base	$7,000	$7,000	$7,000
Insured Unemployment Rate	1.9%	1.9%	2.2%
Average Weekly Benefit Amount	$ 190	$ 170	$ 152

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